



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

December 17, 2013

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe".

SUBJECT: **HILLSIDES – A RESIDENTIALLY BASED SERVICES PROGRAM
PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a review of Hillside (Agency), which covered a sample of expenditure transactions from Program Year (PY) 2011-12 (December 2011 to November 2012). The Department of Children and Family Services (DCFS) contracts with Hillside to provide the Residentially Based Services (RBS) Program to children placed in Rate Classification Level (RCL) 12 or 14 Group Homes, and their families environmentally based interventions, including intensive mental health treatments, family finding, and the Wraparound Approach Services, to shorten their stay in Group Homes and obtain permanency. The RBS Program is a two-year pilot demonstration project with the California Department of Social Services (CDSS) in conjunction with their RBS Reform Project.

The purpose of our review was to determine whether Hillside's RBS Program expenditures were allowable and reasonable in providing the necessary care and program services. We also evaluated the adequacy of the Agency's financial records, internal controls, and their compliance with the contract and applicable guidelines.

DCFS paid Hillside approximately \$2.3 million for PY 2011-12. Hillside provides services in the Fifth Supervisorial District.

Results of Review

Hillsides recorded and deposited DCFS payments timely, prepared its Cost Allocation Plan (Plan) in compliance with their County contract, and used the Plan to allocate shared costs appropriately. In addition, Hillsides' RBS PY 2011-12 Semi-Annual Expenditure Reports reconciled to the Agency's financial records. However, Hillsides charged the RBS Program \$5,625 in questioned costs, and did not always comply with the County contract requirements. Specifically, Hillsides:

- Charged the RBS Program \$1,700 for unallowable expenditures. Specifically, Hillsides paid a RBS client's foster parent \$1,700 for foster care payments. However, the RBS contract does not allow the funds to be used to subsidize other programs. DCFS management also provided documentation to support that the foster parent was paid timely for foster care.

Hillsides' attached response indicates that they will repay DCFS \$1,700.

- Charged 100% of repair costs, totaling \$1,150, to the RBS Program instead of allocating the cost to all benefitted programs.

Hillsides' attached response indicates that they reduced the repair costs to \$600 for the RBS Program and re-allocated the \$550 to another program.

- Allocated an employee's payroll costs, totaling \$2,775, in November 2012 based on projected revenues instead of an allowable methodology.

Hillsides' attached response indicates that they reduced the shared staff's payroll costs to \$1,034 and re-allocated the \$1,741 to other programs.

- Did not reconcile its payroll costs charged to the RBS Program with the employees' timecards. Seven (58%) of the 12 employees' payroll costs did not reconcile with their supplemental timecards.

Hillsides' attached response indicates that they provided incorrect supporting documentation to auditors at the time of fieldwork. After our review, Hillsides provided additional documentation. However, the sampled payroll costs did not reconcile with the timecards.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Hillsides and DCFS. Hillsides' attached response indicates that they agree with our findings and recommendations. DCFS will work with

Hillsides management to ensure that our recommendations are implemented.

We thank Hillsides management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:AB:DC:EB:sk

Attachment

c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, Department of Children and Family Services
Karen Tanji, Board Chair, Hillsides
Joseph M. Costa, Chief Executive Officer, Hillsides
Public Information Office
Audit Committee

**HILLSIDES
RESIDENTIALLY BASED SERVICES PROGRAM
CONTRACT COMPLIANCE REVIEW
PROGRAM YEAR 2011-12**

CASH/REVENUE

Objective

Determine whether Hillsides (Agency) recorded revenue in their financial records properly, deposited cash receipts into their bank accounts timely, and that bank account reconciliations were reviewed and approved by Agency management timely.

Verification

We interviewed Agency personnel, and reviewed the Agency's financial records and November 2012 bank reconciliations.

Results

Hillsides recorded revenue in their financial records properly, deposited their Residentially Based Services (RBS) payments timely, and Agency management reviewed and approved bank reconciliations timely.

Recommendation

None.

EXPENDITURES

Objective

Determine whether Hillsides' Cost Allocation Plan (Plan) complied with their County contract, and if expenditures charged to the RBS Program were allowable, properly documented, and accurately billed.

Verification

We reviewed the Agency's Plan and its financial records for 34 non-payroll expenditures, totaling \$22,722, charged to the RBS Program from February through December 2012. We also interviewed Agency personnel.

Results

Hillsides prepared its Plan in compliance with their County contract, and allocated sampled shared costs appropriately. However, Hillsides charged the RBS Program \$2,850 in questioned costs. Specifically, Hillsides:

- Charged the RBS Program \$1,700 for unallowable expenditures. Hillsides paid \$1,700 in foster care payments to an RBS client's foster parent. However, the contract does not allow RBS funds to be used to subsidize other programs. Department of Children and Family Services management also provided documentation to support that the foster parent was paid timely for foster care.
- Charged 100% of repair costs, totaling \$1,150, to the RBS Program instead of allocating the cost to all benefitted programs.

Recommendations**Hillsides management:**

1. Repay the Department of Children and Family Services \$1,700.
2. Re-allocate \$1,150 to all benefitted programs and reduce the Residentially Based Services Program expenditures by the overcharged amount.
3. Ensure that only allowable expenditures are charged to the Residentially Based Services Program.
4. Ensure that shared program expenditures are allocated appropriately among all benefitting programs.

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether Hillsides' fixed assets and equipment purchased with RBS funds were used for the Program and adequately safeguarded.

Verification

We interviewed Agency personnel and reviewed the Agency's fixed assets and equipment inventory list. We also performed a physical inventory of one item purchased with RBS funds to verify the item exists and was being used for the Program.

Results

Hillsides did not purchase any fixed assets with RBS funds. The Agency adequately safeguarded and used the item we reviewed for the Program.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether Hillsides appropriately charged payroll costs to the RBS Program and maintained personnel files as required.

Verification

We traced the payroll expenditures for 12 employees, totaling \$33,769 for November 2012, to the Agency's payroll records and time reports. We also reviewed employees' personnel files.

Results

Hillsides maintained personnel files, and required staff to complete supplemental timecards, which document actual hours worked per program. However, Hillsides charged the RBS Program \$2,775 in questioned costs and did not always support its payroll costs with adequate documentation. Specifically:

- One employee's payroll costs, totaling \$2,775 in November 2012, were allocated to multiple programs based on projected revenues, which is not an appropriate method.
- Seven (58%) of the 12 employees' payroll costs did not reconcile with their supplemental timecards. Three of the seven employees did not turn in their supplemental timecards, three employees submitted their supplemental timecards late, and one employee's payroll costs were charged to another program in error.

Hillsides management indicated that the discrepancies were because some of their employees did not submit their timecards in a timely manner. Hillsides management had not adjusted their Program Year (PY) 2011-12 (December 2011 to November 2012) payroll costs to reflect the actual hours the RBS staff worked. As a result, the RBS payroll costs for PY 2011-12 were not accurately reported.

Recommendations**Hillsides management:**

5. Re-allocate the shared employee's payroll costs, including \$2,775, for Program Year 2011-12 based on an allocation methodology derived from actual condition.
6. Reconcile Program Year 2011-12 payroll costs charged to the Residentially Based Services Program with supplemental time reports, and revise the Program Year 2011-12 Cost Report.
7. Ensure that the Residentially Based Services Program staff submit their timecards documenting actual hours worked each day by program on a timely basis.

SEMI-ANNUAL EXPENDITURE REPORT**Objective**

Determine whether Hillsides' PY 2011-12 RBS Semi-Annual Expenditure Reports reconciled to the Agency's financial records.

Verification

We traced the Agency's PY 2011-12 RBS Semi-Annual Expenditure Reports to the Agency's financial records.

Results

Hillsides' RBS PY 2011-12 Semi-Annual Expenditure Reports reconciled to the Agency's financial records.

Recommendation

None.

PRIOR YEAR FOLLOW-UP**Objective**

Determine the status of the recommendations reported in the prior Auditor-Controller monitoring review.

Verification

We verified whether Hillsides implemented the ten recommendations from the January 14, 2013 monitoring review.

Results

Hillsides implemented all recommendations from the January 14, 2013 monitoring report.

Recommendation

None.



MANAGEMENT LETTER

November 7, 2013

Wendy L Watanabe, Auditor-Controller
County of Los Angeles – Department of Auditor-Controller

We have reviewed the Residentially Based Services (RBS) Contract Compliance Review for Program Year (PY) 2011-12 and have provided our response and Corrective Action Plan (CAP) dated November 7, 2013. During the review, we noted certain matters involving cost allocations. These comments and recommendations presented have been discussed with the appropriate members of management.

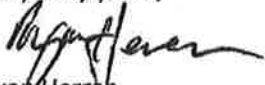
- **Repayment of Unallowable Costs.** Although only \$2,174,919 in revenue was received while we realized \$2,351,529 in expenditures, Hillsides management has agreed to repay the \$1,700.
- **Allowable Expenditures, Program Expenditures and Cost Allocations.** Hillsides made the changes suggested by the Auditor-Controller. Additionally, Hillsides is currently moving towards a comprehensive Cost Allocation Plan where all costs are basically categorized as either: 1. Unallowable, 2. May be allowable or 3. Allowable. If Allowable, costs may fall into one of the following: a. Direct, b. Direct shared, or c. Indirect. Management feels with a comprehensive Cost Allocation Plan, it will assist with ensuring allowable and program expenditures and allocated costs will be appropriately accounted among all benefiting programs.
- **Timecards.** Staffs are being consistently being reminded to submit timecards in timely manner to avoid discrepancies in pay.

A revised SR3 will be prepared and submitted to reflect the noted revisions; where expenditures will decrease from \$2,351,529 to \$2,347,538. To account for the \$1,700 of unallowable cost, decrease in overcharged amount of \$550 and the salary reallocation of \$1,741.

We would be please to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of the County of Los Angeles – Department of Auditor-Controller and related individuals governing the RBS program not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


Ryan Herren
Chief Financial Officer
Hillsides

Enclosure:
Response and Corrective Action Plan



**PY 2011-2012 RESIDENTIALLY BASED SERVICES (RBS)
CONTRACT COMPLIANCE REVIEW
RESPONSE AND CORRECTIVE ACTION PLAN
NOVEMBER 7, 2013**

CASH/REVENUE

Recommendation: None

EXPENDITURES

Recommendation 1:

Repay the Department of Children and Family Services \$1,700.

Hillsides CAP: For PY 2011-12, as reported on the SR3, Hillsides reported \$2,174,919 in revenue and \$2,351,529 in expenditures. Thus there was \$176,610 in expenses which were greater than revenue received from DCFS. After the \$1,700 of unallowable expense, Hillsides' RBS program costs for PY2011-2012 remained \$174,910 greater than revenue received from DCFS. Despite this underpayment, Hillsides will repay DCFS the \$1,700.

Recommendation 2:

Reallocate \$1,150 to all benefitted programs and reduce the Residentially Based Services Program expenditures by the overcharged amount.

Hillsides CAP: Hillsides agrees that there was a mis-coded item which resulted in the \$1,150 identified. A journal entry has been done to accurately state the benefitted programs, where RBS was charged their share of \$600 out of the \$1,150 expense. A copy of JE# 1440 was provided at the RBS exit interview on September 24th along with a draft response and corrective action plan. Hillsides will lower its reported expenditures by \$550.

Since the audit, Hillsides has hired a new Controller, who is currently working on additional metrics to catch such matters before hand; and staff has been educated to inquire on discrepancies to ensure coding is accurate before entry into the accounting system. Hillsides management believes we are currently in compliance and have made changes to maintain compliance moving forward.

Recommendation 3:

Ensure that only allowable expenditures are charged to the Residentially Based Services Program.

Hillsides CAP: As previously stated, Hillsides has hired a new Controller, who is currently working on additional metrics to catch such matters before hand; and staff has been educated to inquire on discrepancies to ensure coding is accurate before entry into the accounting system. Hillsides management believes we are currently in compliance and have made changes to maintain compliance moving forward.



**PY 2011-2012 RESIDENTIALLY BASED SERVICES (RBS)
CONTRACT COMPLIANCE REVIEW
RESPONSE AND CORRECTIVE ACTION PLAN**

NOVEMBER 7, 2013

Recommendation 4:

Ensure that shared program expenditures are allocated appropriately among all benefiting programs.

Hillsides CAP:

As previously stated, Hillsides has hired a new Controller, who is currently working on additional metrics to catch such matters before hand; and staff has been educated to inquire on discrepancies to ensure coding is accurate before entry into the accounting system. Hillsides management believes we are currently in compliance and have made changes to maintain compliance moving forward.

FIXED ASSET AND EQUIPMENT

Recommendation: None

PAYROLL AND PERSONNEL

Recommendation 5:

Reallocate the shared employee's payroll costs for Program Year 2011-12 based on allocation methodology derived from actual conditions.

Hillsides CAP:

Hillsides agrees that an error in allocation of employee payroll costs was made. A journal entry was made to correctly state personnel expenses, where RBS was charged a total of \$1,034 based on supervisors' direct staff's actual pay allocations. Therefore, a reduction of \$1,741 of salary expense has been reallocated to the proper programs and RBS is no longer overstated by this amount. A copy of JE# 1704 and #1706 are enclosed along with supporting documents. Hillsides will lower its reported expenditures by \$1,741.

Hillsides management is working with RBS program staff to improve the timecard process. At present, Hillsides management believes we are currently in compliance and have made changes to maintain compliance moving forward.

Recommendation 6:

Reconcile Program Year 2011-12 payroll costs charged to the Residentially Based Services Program with supplemental time reports, and revise the Program Year 2011-12 Cost Report.

Hillsides CAP:

After a closer analysis of the payroll system and items provided to the LA County auditors, it appears inaccurate support was provided. Apparently provided labor distribution report from the payroll system based on the time frame in question rather than pulling actual payroll reports received during the actual payday. Hillsides' current payroll system is unreliable in pulling prior period reports since it will capture current period pay allocations but represent based on amount paid in prior periods. After reconciling timesheets to actual payroll



**PY 2011-2012 RESIDENTIALLY BASED SERVICES (RBS)
CONTRACT COMPLIANCE REVIEW
RESPONSE AND CORRECTIVE ACTION PLAN**

NOVEMBER 7, 2013

reports, labor distribution matches to time cards and what was recorded in our accounting system. Since the start of the new Controller, it was advised to keep electronic copies of each pay period pay distribution and to pull accurate source data versus relying on an unreliable system for accurate reporting. Hillsides management believes we are currently in compliance and have made changes to maintain compliance moving forward.

Recommendation 7:

Ensure that the Residentially Based Services Program staff submits their timecards documenting actual hours worked each day by program on a timely basis.

Hillsides CAP: Reminders have been announced to staff to submit time cards in timely manner to avoid discrepancies in pay. Hillsides management believes we are currently in compliance and have made changes to maintain compliance moving forward.

SEMI ANNUAL EXPENDIURE REPORT

Recommendation: None

PRIOR YEAR FOLLOW-UP

Results: Achieved/Implemented